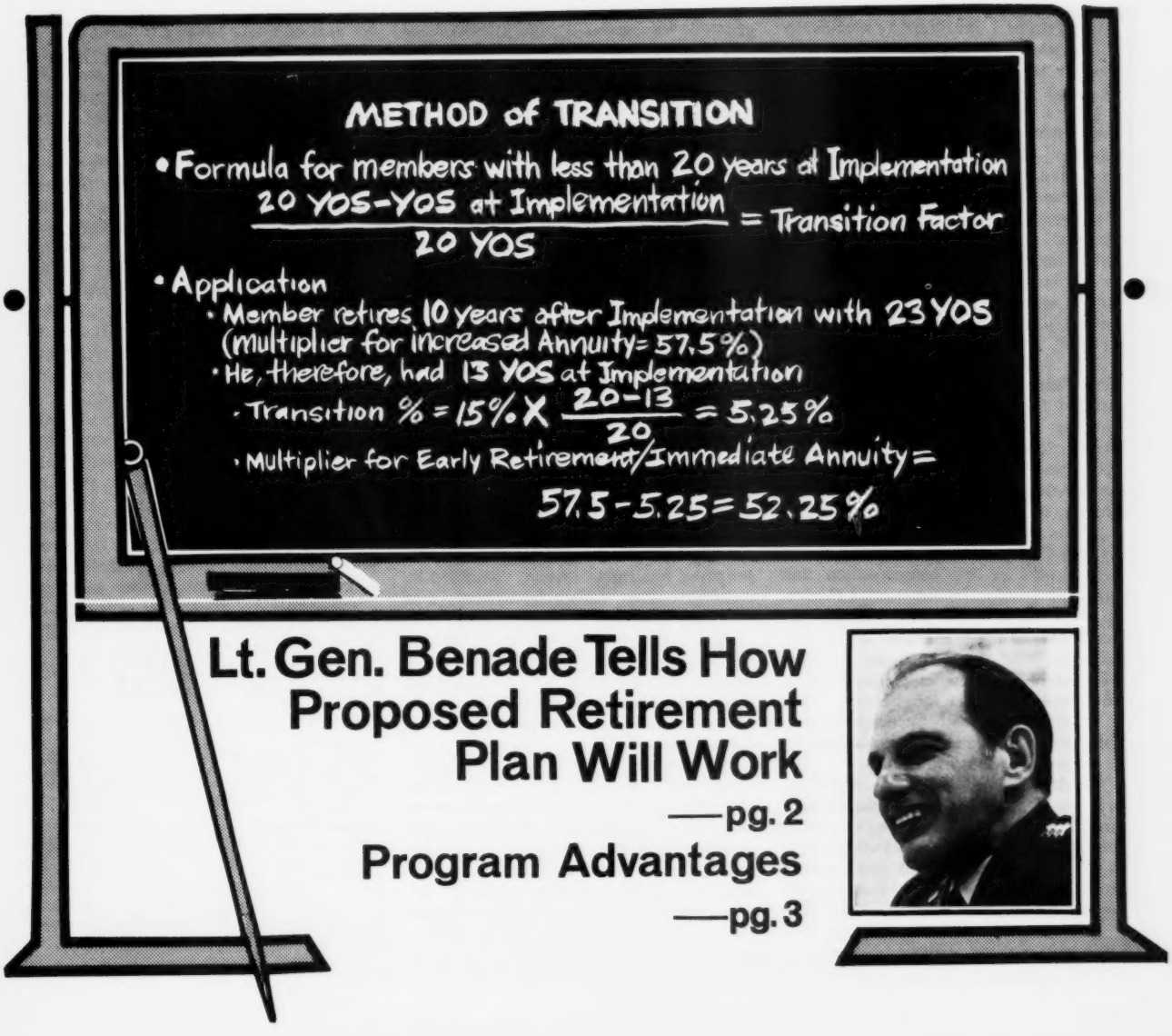
COMMANDERS DIGEST

NON-DISABILITY RETIREMENT: III

MARCH 8. 1973


METHOD of TRANSITION
• Formula for members with less than 20 years at Implementation
20 YOS-YOS at Implementation / 20 YOS = Transition Factor
• Application
• Member retires 10 years after Implementation with 23 YOS (multiplier for increased Annuity=57.5%)
• He, therefore, had 13 YOS at Implementation
• Transition % = 15% X 20-13/20 = 5.25%
• Multiplier for Early Retirement/Immediate Annuity =
57.5-5.25=52.25%

Lt. Gen. Benade Tells How Proposed Retirement Plan Will Work

—pg. 2

Program Advantages

—pg. 3

Contributory Feature Avoided

Retirement Proposal Provides 'Save-Pay' Clause

Army Lieutenant General Leo E. Benade, Deputy Assistant Secretary of Defense (Military Personnel Policy), recently discussed the Defense Department's proposed retirement pay legislation with military news correspondents on a feature program of the American Forces Radio and Television Service.

Following is a transcript of General Benade's remarks:

I am glad to have this opportunity to discuss with you a subject of utmost importance to every careerist in the Armed Forces. I am referring specifically to the proposed changes in the nondisability retirement system.

I hope from our discussion we can all gain a better understanding of two things: first, the essential details of the proposed changes; and second, why these changes are needed.

In recent years, the Armed Forces have come a long way in the matter of improved active duty pay and supplemental benefits. In general, active duty pay in the Armed Forces is now competitive with pay levels elsewhere in the Federal Government and in the private sector of the economy for comparable levels of work.

We have not attained the present levels of pay and supplemental benefits, including retirement pay, without considerable cost. Many billions of dollars a year have been added to the personnel costs of the Armed Services and we will continue to require similar expenditures in the future.

The military retirement system is an integral part of the compensation and personnel structure of the Armed Forces. As such, there were—and are—serious deficiencies in the retirement system, including a lack of an adequate program of survivor benefits and lack of a coordinated program of benefits, both in relation to Social Security and to other benefit programs administered by the Veterans Administration.

The first serious deficiency—the need for a more adequate and equitable program of survivor benefits—was corrected with the enactment of Public Law 92-425, which was signed into law by the President on September 21, 1972. Among other things, the new law provided a higher benefit level for survivors of retired military personnel at lesser cost to the military member. One result, of course, was to increase the value of military retired pay by lowering the cost of survivor protection.

It is important to emphasize that the recently improved Survivor Benefit Plan was an integral part of the Department of Defense proposal to revise the military retirement system. However, because the need for the new Survivor Benefit Plan was considered so urgent, it was given a top priority and was handled as a separate legislative proposal.

I should like now to turn to other aspects of the military nondisability retirement system and the need for change.

To insure in the future the competitive pay levels that we have attained today, we must be able to defend each element of compensation in terms of its overall relationship to the pay received by an individual throughout his career. We must balance compensation paid today for service performed today against a fair and equitable retirement system that meets the needs of the retiree throughout his retired lifetime. At the same time, we must insure that the retirement system offers an appropriate reward for those members who spend long and faithful service in the military service.

We believe that the proposed retirement system meets these objectives. Specifically, the advantages inherent in the proposed retirement system, compared to numerous other retirement systems that could be proposed, can be enumerated.

First of all, I would like to emphasize that two key factors of the proposal must be kept in mind during any discussion of the revised retirement system: the transition mechanism, and the save-pay provision.

The transition mechanism will gradually, over a period of 20 years, revise the retirement system to conform to the basic recommendations of the Department of Defense. Members who have served for 20 or more years at the time of implementation will be minimally affected by the new plan. In fact, no members who are on active duty at the time of implementation will be fully affected by the provisions of the new plan. However, the revised retirement system will be applied to those members in proportion to the amount of time that they have spent under relatively competitive pay scales. In other words, future members will receive proportionately more compensation while on active duty compared to their predecessors, who receive proportionately more compensation in retirement. The less time a member spends under today's relatively competitive active duty pay scales, the less the effect of the new retirement system; only those members who enter active duty after implementation will be fully under the provisions of the new plan.

The other key feature of the retirement proposal is the save-pay provision. The provision offers a guarantee to all members currently on active duty. All members will be guaranteed at least as much retired pay as any similar member retired before him. Today's levels of retirement pay represents the floor; no future retiree will receive less. Most individuals who retire at a future date will receive significantly more retired pay throughout their retired lifetime.

Often during discussion of a revision to the retirement system, it is suggested that the military adopt a contributory plan. The plan proposed by the Department of Defense avoids such a burden to the individual while on active duty.

One of the key features of the present retirement system is the permissive authority allowing a member to retire

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with as little as 20 years of service. This feature is retained in the Defense recommendations.

For the first time, in many cases, payments would be made to those individuals who leave the military service prior to achieving eligibility to retire.

Two types of payments would be provided: an equity payment to pay the member for service performed; and a readjustment payment to involuntary separatees to assist their transition into the private sector.

Increasing the retirement multiplier by 3 percent, rather than 2½ percent for each year of service after 24 will benefit some 23,000 enlisted members and about 14,000 officers currently on active duty.

And, finally, the new Survivor Benefit Plan for military retirees, as I indicated earlier, will, through the combination of higher benefits at lesser cost, increase the value of retired pay to those members who retire in the future.

Now, again, the proposals that are under discussion today must be viewed within the context in which they were developed. To view them in isolation outside of this context can lead to erroneous conclusions. The provisions are complex and they require thoughtful study. I would hope, however, that information provided to the field through programs such as this, and other sources, will help to clarify what is actually being proposed and the reasons why the changes are needed.

QUESTION: General Benade, you've said one reason for this kind of a pension plan is that military pay has now reached a par with civilian pay in industry. The plan assumes that military pay will remain on a par with civilian pay. Can you tell us, sir, what assurance there is that it will remain that way?

ANSWER: There is really a double assurance. First of all, if there are no pay increases in the future, then there's not going to be any change in the levels of retirement pay, because an integral part of the proposal is related to future pay increases. If there are no pay increases, there is, in effect, no change in the retirement pay levels, because as I said earlier, today's levels of retirement pay represent the floor. No one is going to get any less. It is simply a question of how much they will increase in the future.

The other assurance is that we are linked by law with increases for civilian personnel in the Federal Government who, in turn, are linked by law to changes in the wage and salary movements in the private sector.

So I have every confidence that military pay will be kept competitive.

There is one other aspect that is also important. In an All-Volunteer Force environment, the only way the Government can get and keep the kind and quality of people that it will require when it has to compete, in the labor market with other employers for talent, will be to match, in general, wages and salaries otherwise available to a

New Program Advantages

1. *Gradual transition spans more than 20 years.*
   - *Members with 20 or more years of service minimally affected.*
   - *Members on active duty with less than 20 years of service only partially affected. The more time under today's competitive active duty pay scale, the more the affect of the new plan.*
   - *Only new entrants to active duty are fully under the plan.*
2. *Save-pay provision guarantees equity.*
   - *Today's levels of retired pay represent the floor; no one in the future will receive less. Most will receive significantly more.*
3. *Plan is necessarily complex.*
   - *The new plan is complex because of the gradual transition provision and the substantial efforts put forth to insure maximum benefits to all Service members—present and future.*
4. *Retirement system remains "free."*
   - *New plan avoids the burden of a contributory system for members on active duty today.*
5. *20-year retirement remains.*
   - *The new plan retains 20-year retirement eligibility with an immediate annuity.*
6. *Equity and readjustment payments provided.*
   - *The new plan provides an equity payment for the first time to all members—officer and enlisted—who voluntarily leave active duty after 10 but before 20 years of service.*
   - *The new plan provides readjustment pay, for the first time, to all enlisted men and some officers who involuntarily leave active duty after 5 but before 20 years of service.*
7. *Increased multipliers benefit thousands.*
   - *The multiplier increases to 3 percent for each year of service after 24 (rather than 2½ percent).*
   - *23,000 enlisted men and 14,000 officers presently on active duty stand to gain.*
8. *Survivor benefit protection available at low cost.*
   - *Low cost of the new Survivor Benefit Plan significantly increases the value of retired pay.*
   - *Increased survivor protection offered at no cost to member on active duty with 20 or more years of service.*

young man considering a military career.

Q.: General, if the efforts to retain military personnel for a full 30 years are successful, many soldiers are wondering if this might not adversely slow down the frequencies of promotion. Will this adversely affect promotion?

A.: That is a very important question and I appreciate that it is of concern.

I'd like to address it in some detail.

First of all, the plan does not contemplate additional numbers of men being retained beyond 20 years of service. It is intended to make continued active military service increasingly attractive so as, hopefully, to encourage all men to wish to stay. Those who would be retained would be those in the skills and grades required to meet Service requirements.

Now, obviously, to the extent that retention is improved, there would be some slowdown in promotions. But I think that we have to remember that promotion flow is governed by several variables of which retention is just one. Grade structure is a factor; procurement in any given year is a factor; retirements are a factor—all of which affect, in any one fiscal year, the number of vacancies that would be available for promotion.

But again, let me emphazise the importance of competitive pay.

During wartime, of course, and during an expansion of the Armed Forces, promotion is more rapid. In peacetime—and hopefully that's how we would be spending our time—promotions slow down and the force is contracted. But if we have competitive pay levels for all of our pay grades, there is no financial hardship associated with spending a reasonable time in grade before promotion to the next grade.

It reminds me of a rationale that has often been used—sometimes wrongfully, sometimes rightfully—that rapid promotion was justified, particularly in the lower grades, because of the inadequate pay scales for those grades. I think personally there was some validity to that. But I don't think that argument would be valid in the future, if we have competitive pay for all grades, including first-term personnel.

Q.: One of the points brought out in the plan is that modifications are required to increase attractiveness of long service, 30 years plus, versus mid-career retirement. The following questions are directly related to this aspect of the proposal:

Lt. Gen. Leo E. Benade

It appears to be biased in favor of colonels and generals and chief master sergeants. Reserve officers are forced to retire at 20 years' active service. Regular lieutenant colonels are only allowed to serve 28 years of active service, and, because, of high-year tenure, the same condition exists in the enlisted grades also. It seems that those personnel who least need a higher ratio for retired pay are the ones who benefit under this plan.

Secondly, does the Air Force envision that everyone—in effect, Reserve and regular, regardless of grade—be offered the opportunity to serve 30 years plus?

A.: It is correct that the longer the individual stays in service, and the higher the grade that the individual achieves, the more he benefits, because any individual serving more than 24 years will benefit from the higher multiplier. I have already pointed out that there are about 23,000 enlisted personnel, and about 14,000 officers currently on active duty who have more than 24 years of service.

Remember that one of the objectives of any compensation plan, including the retirement plan, is to be competitive with other systems both in the Federal Government and in the private sector of our society.

I think you would find that, if you examine any progressive retirement plan, the benefits of the plan are proportional to the length of time that the individual spends under the plan. In all retirement plans, there is a relationship between the amount of the retirement benefits and salary or wages that the individual was receiving prior to his retirement. In some cases, it is a one-year average or two years, or three years, or five years; some plans use a ten-year average; some plans use a career average. But whatever the formula the organization employs, the relationship exists.

I don't know why we should regard the proposed plan as favoring any particular grade. Those enlisted personnel who succeed through the competition that does exist in promotion to all enlisted grades, those who succeed to promotion to the higher grades and consequent longer service, should not, I think, be discriminated against for that reason. I think the same rationale applies to officers.

The key to this aspect is that the competitiveness of the military plan is geared to the prevailing practices in our society. The same concept is fundamental to all other plans.

I think the second part of the question had to do with whether or not the Air Force, in particular, was planning to permit all individuals, regular and Reserve, to compete alike for the opportunity to stay.

I can't say with absolute assurance that that will be the case, nor am I in a position to commit the Air Force to future personnel policies or plans at this point in time.

I can say that there is a very intensive study going on within the Department of Defense in which all of the Military Services are participating, that is reexamining some of the fundamental concepts of officer personnel management.

Those of you, at least those who are in

COMPLETE RETIREMENT INFORMATION COMING

Facts concerning the DoD Retirement Study Group's recommendations will be furnished to each Service member.

Included in the complete material to be distributed will be worksheets to allow Service members to relate the proposed changes to their individual circumstances.

the personnel business, are aware of the fact that we have operated under laws which have seen little change—in fact, no change, in substance—since immediately following World War II. The concepts under which those laws were devised are not quite in tune with the realities of today's world. Specifically, for example, it was envisioned following World War II that we would have a relatively large standing force. And the authorizations for regular strengths were considerably increased by the Congress over what they had been prior to World War II.

But everything is relative. The authorized strength of the Armed Forces following World War II was certainly considerably in excess of what it was prior to World War II. On the other hand, the actual level of forces that we have had since Korea—since World War II, in fact—far exceeded what the personnel planners back in 1947 and 1948 envisioned. And the concept that we would be manned mostly by regulars and augmented only when necessary by Reserve personnel has been reversed, for all practical purposes. We have actually had more Reserve officers on duty in the Air Force and in the Army than we have had regulars at any one time.

All of these things are being looked at. I am not in a position to say, because the studies are not completed, what modifications of personnel laws might be sought. But I feel sure that there will be changes in that area. I think it is necessary to modify those laws in accord with the realities of today's world.

Q.: Number one, as I understand it from reading the military publications such as the Air Force Times, the Survivor Benefit Program has a lock-in feature: once you make your decision, regardless of your circumstance 20 years later, reference either the health of your wife, or this, that, and the other, you are locked in and can't get out as you could with the older plan.

Number two, there seems to be a hint that this might be a part of your estate which could have a sizable estate tax right when you didn't really have the money to pay, since it comes in over a few dollars a month for 20 or 30 years, assuming an early death of the member and a long life for the wife, or such.

A.: On the first part of your question with respect to the lock-in feature, you are quite right. It is a feature of the plan.

It is important to understand that this same feature is also present in the Civil Service plan. It is also a common feature in plans in the private sector to the extent that employers have programs which contemplate a survivor benefit for survivors of their employees.

The reason why it is in our plan, and the reason why it is in the plan for Federal Civil Service employees, is that it helps hold down the cost of the program. Even with that feature in the program, the Government is paying about 40 percent of the cost of the new plan, and the individual member is paying roughly, on the average, about 60 percent of the cost. So it's a very substantial saving. If that feature were not in there, the cost both to the member and to the Government to maintain the plan would be higher than it is.

As to the taxation part of your question, we have, as a result of consultations with the Internal Revenue Service, obtained agreement that the tax treatment of the Survivor Benefit Plan will be the same as it is under the Retired Serviceman's Family Protection Plan. In other words, under the new Internal Revenue ruling, the payments deducted from the individual's retired pay will not be taxable to him. The Survivor Benefit Plan payments, when they are received by the wife, would be taxable to her, but presumably, she will be in a lower tax bracket, and so the tax effect should be greatly eased. Finally, it will not be necessary to declare the value of the survivor benefits in the estate. So there will not be an estate tax levied on it.

Q.: How serious a threat to this proposed legislation for a new nondisability retirement system, would you feel, is the intent of some members of Congress to make the military retirement system a contributory one?

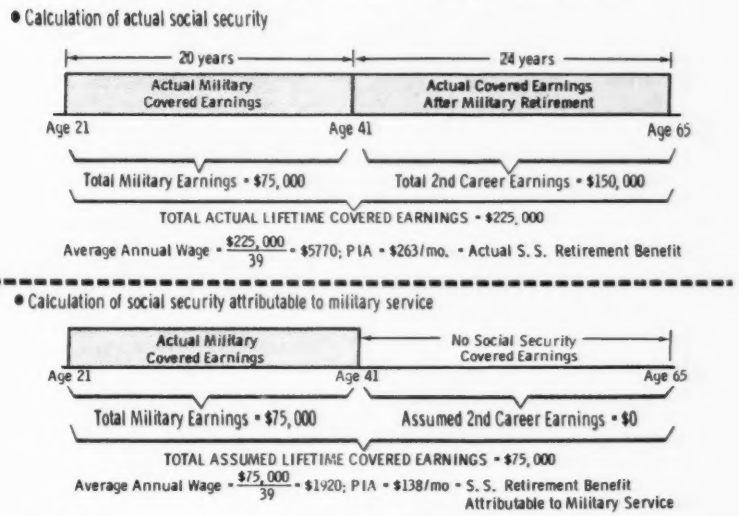
A.: I think it's a very serious possibility. I don't think I have to tell the audience that there has been a great deal of concern on the part of many very responsible members of Congress. They are deeply concerned with respect to the rising costs of the military retirement system, and the fact that actually our retirement system is operating in an environment, and with numbers of people, that were never envisioned when the present provisions of law were enacted.

It is very difficult for many members of Congress to understand why the military should not be put into a contributory system. First of all, they feel that it would be cheaper in terms of cost to the Government to have a contributory system. Second, many of them feel that this would help to make military members more aware of the value of their retirement in terms of cost both to the individual and to the Government.

There also exists a belief that there ought to be a conscious participation by the individual in his retirement plan.

In civilian life, the merits of a contribu-

ACTUAL SOCIAL SECURITY BENEFIT COMPARED TO SOCIAL SECURITY ATTRIBUTABLE TO MILITARY SERVICE


• Calculation of actual social security
20 years
24 years
Actual Military Covered Earnings
Actual Covered Earnings After Military Retirement
Age 21
Age 41
Age 65
Total Military Earnings = $75,000
Total 2nd Career Earnings = $150,000
TOTAL ACTUAL LIFETIME COVERED EARNINGS = $225,000
Average Annual Wage = $225,000 / 39 = $5770; PIA = $263/mo. = Actual S. S. Retirement Benefit
• Calculation of social security attributable to military service
Actual Military Covered Earnings
No Social Security Covered Earnings
Age 21
Age 41
Age 65
Total Military Earnings = $75,000
Assumed 2nd Career Earnings = $0
TOTAL ASSUMED LIFETIME COVERED EARNINGS = $75,000
Average Annual Wage = $75,000 / 39 = $1920; PIA = $138/mo = S. S. Retirement Benefit Attributable to Military Service

tory versus a noncontributory plan is a subject of very ardent discussion. Each view has its proponents.

There are a number of advantages to a contributory plan, and, if we were starting from a clean slate, I think, I would be tempted to vote for a contributory plan. But in the case of the military, we are not starting from a clean slate, and for us to go on to a contributory plan does have a great many problems.

Let me take a moment to explain what I mean when I say that.

For example, we must keep in mind that out of every 100 entrants into the Armed Forces, only about 10 or 11 go on to retirement. This means that 89 or 90 out of every 100 entrants leave the Service before they qualify for retirement.

A contributory plan would involve a return of contributions to those individuals leaving before retirement, either with or without interest, depending on how the plan is structured. So you can see that, for most people who enter the Armed Forces, a contributory plan would be nothing but an enforced system of saving.

The other important thing is that in most plans, at least if they are to be sef-sufficient plans, the contribution by the employee on the one hand, and the employer on the other hand, should equal the cost of that system—the so-called normal cost of the retirement system.

For example, in the case of the Civil Service, the cost of that system is just a shade under 14 percent of payroll. In other words, for every $100 that is spent on payroll, about $14 must be set aside to meet the ultimate obligations of the retirement system. The civil servant contributes one half; the government contributes the other half. In percentage terms, the employee contributes 7 percent of his pay with a matching contribution by the Government.

In the case of the military, our system is much more costly. Our system costs about 23 percent of payroll. The reason is that we are the only system that has such tremendous numbers of people retiring at a very early age, on the average, and who receive retirement pay for a much longer period of time, as compared to any other retirement system. This accounts for the tremendous cost of the military system.

If we were to have a contributory system—with more than just a token contribution on the part of the Government and on the part of the man—you can see that it would cost the individual on the order of about 12 percent of pay. I would not like to see our military members burdened with a 12 percent reduction in their pay in order to contribute to a contributory system.

I don't want to minimize the possibility that the contributory system concept will be advocated very vigorously in some parts of the Congress. And it will continue to be from now on, I think.

Q.: We are concerned with the pay formula and its effect on a Reserve officer who has a higher permanent grade.

Under the present system, the officer uses that grade to determine the base pay on which his retired pay will be computed. We understand the proposed forumla will be based on his active duty pay only.

A.: To qualify for retirement, the individual has to have 20 years of active service—I am talking about the Title 2 type retirement. And retirement in the officer grade requires at least 10 years of commissioned service.

Such an individual would, just as is true under existing law, have his retirement pay based on pay scales in effect at the time he retires, as modified by the averaging provisions of the proposed plan. The Reserve officer who holds a higher grade in the Reserve system—the "hip pocket promotion"—will only be allowed to retire from active duty in that grade if he serves on active duty in that grade for at least 6 months. This provision applies only to future promotions and is the only provision specifically applicable to Reserve officers.

On the other hand, if you are referring to a Reservist who completes 20 years of satisfactory service, and who retires at age 60, there is nothing in the proposed retirement plan which would modify the present provisions of law pertaining to the determination of the grade in which the individual would retire, or the grade in which he would be eligible to receive retired pay.

Q.: What defines 30 years of service in order to qualify for a full career annuity? That is, is it in accordance with the present Department of Defense Military Pay and Allowance Entitlements Manual which presently lists service in some 40 different organizations?

A.: The service you refer to in Title 37 is service creditable in the computation of basic pay. But the service that is referred to in this plan is active service, and not service creditable for determining basic pay.

I'd like to clarify that point, because it is very important.

Remember that, under existing law, an individual may have certain service creditable for pay, but which is not creditable for the purpose of determining eligibility for retirement.

Example: I might have 15 years of active duty and 5 years of inactive reserve time. If my grade is major, I am for pay purposes a major with 20 years of service, but I have only 15 years of active service for the purpose of qualifying, for example, for 20-year retirement.

There's nothing in the Department of Defense proposal that changes that.

All service creditable for pay purposes remains creditable for pay purposes. But for the purpose of determining eligibility for retirement, we are talking only about active service.

Q.: Under the proposed plan, there was very little discussion regarding former officers now serving in enlisted status and how the new plan would affect them. Will the save-pay proviso cover them or will the new high-one apply, and will officer or enlisted pay be used to do the figuring?

A.: There's nothing in the plan that changes the rules for the determination of the status in which the individual would be retired.

Take, for example, an individual who served as an officer, is separated from active duty as an officer, and reenlists as an enlisted member. Ultimately, when he reaches retirement eligibility, his eligibility and the grade in which he would be retired, would be the same, as under existing law.

With respect to the application of the high-one average—in almost all cases the high-one average would really be the year's earnings immediately prior to the time the individual was being separated. But if the individual, under another provision of law, were entitled to a higher rate of pay based on a higher grade, retired pay would be calculated on the higher rate to which he would be entitled.

In all cases, whenever an individual has one or more formulas that apply to him, existing law provides (and we do

not expect it to change), retired pay calculated on that formula which is more favorable to him.

Q.: For the individual who separates from the Service with 10 to 19 years' active duty, what becomes of his deferred annuity, if he dies before reaching 60?

A.: In those cases, the amount that would have been payable to an individual, had it been a lump-sum payment under the formula set out, would be payable to his survivors.

Q.: The information we received does not seem to spell out the options to the man voluntarily retired after 10 years but before 20. Now, is his only option a deferred retirement at age 60, or will he have a lump-sum option as does the man involuntarily retired?

A.: No. The individual who leaves service voluntarily after 10 or more years of service does not have a choice of payments. That individual will be eligible to receive a deferred annuity which begins at age 60, based on 2½ percent of his basic pay times his years of service.

Q.: In most of my reading, such as the COMMANDERS DIGEST, there are whole pages of the advantages of the new proposal, and nothing for the disadvantages.

I'm wondering, are there any major disadvantages to the proposal and, if so, what are they and why aren't they being published along with the advantages?

A.: That is a good question. Disadvantages depend on who is looking at it, and who is calling it a disadvantage, and who isn't. Most everyone views it from his own perspective.

An individual, for example, who expects to retire and is making his plans accordingly, at the 20 years of service point, or 21 years of service point, and who may have been anticipating certain pay increases between the present and the time that he retires, and who was mentally calculating 50 percent of that new higher rate, will feel that the system is being changed to his disadvantage. Technically, he's quite right.

I don't know quite how anyone would be in a position to predict precisely the size of future pay increases or how much of it would be in basic pay, or what the future level of retirement pay might be. But if you assume that notwithstanding any other pressures, or any other constraints on the Defense budget, that basic pay is not going to be affected and it's going to continue to go right on up, then to that extent there is a disadvantage, obviously. Under today's formula the man would receive a flat 50 percent regardless of his age or anything else if he has 20 years of service; and under the new plan, if it were to be fully implemented, and if we were talking about 20 years off, he would get 35 percent. So there's a difference of 15 percent.

To that man it is a disadvantage. I suspect to others it will probably be an advantage in this sense. I would emphasize again that today's levels of retirement pay form the floor. I cannot emphasize that too much. Particularly with the feature we have in law of Consumer Price Index adjustment to retirement pay to keep it abreast of increases in the cost of living, I don't think anyone can say that today's levels of retirement pay aren't generous, by any standard.

Just as an example: For an E-7 who retires with 20 years of service under today's pay scales—if you assume an entry age of 19—the anticipated total lifetime retired pay under today's pay scales is $142,000 for 20 years of service. That will not be diminished. It will not be affected by anything that is being proposed.

The question is: How much more than $142,000 should it be in the future?

The Department of Defense, I assure you, has no desire to do other than to have all aspects of this fully understood by all military personnel. We have no illusions that everyone is going to like everything about the proposed new system. There are a good many people who don't like a lot of features about the present system. But on balance, weighing the advantages and disadvantages of change, and the equity both to the individual Service member and to the taxpayers, I personally believe that the new plan is a very fair one, and that the disadvantages—if you can call them that—are not so much disadvantages as a questions of the realities of life and of available resources.

If this plan were not based on the concept of paying more adequately for service at the time the service is performed, then I would have very serious personal reservations about the fairness of changing this element of compensation.

I think all of us just have to be more sophisticated today than we have probably been in the past. The tendency to look at the individual elements of compensation as separate and distinct from each other is not a correct way to regard compensation, either from the standpoint of the individual or from the standpoint of the Government.

Compensation is a package of things. It consists of the direct pay that we receive each month. It consists of the supplemental benefits that we receive and for which Uncle Sam pays. It includes retirement pay. It includes all of the other special and incentive pays that certain individuals receive on active duty. It is the total of all of these that make up pay for service in the Armed Forces. And if we did not have this tremendous advance in the concept of competitive pay for service at the time the service is performed, I would be much less certain in my belief that it is right to revise the retirement system.

That's a pretty long answer to your question. But your question is a very good one, a very important one. I do not want the Department of Defense position on this to be misunderstood.

Q.: A retired individual has an option of electing reduced Social Security benefits at age 60—for a female—or at age 62 for a male. Would this have any effect on the Social Security offset as envisioned at age 65?

A.: The answer is: there would be no effect.

Q.: Would it not be more equitable if the recommended retirement plan included a provision for a lump-sum separation allowance for members who are voluntarily separated with more than 10 but less than 20 years' service instead of the present position which delays their entitlement to age 60?

A.: That possibility was looked at very carefully by the Department of Defense Study Group.

Actually, it would probably be cheaper for the Government to give the man a lump-sum payment rather than the annuity payable at age 60. That is, it would be cheaper for the Government, assuming that the figure that was used for the readjustment payment, or separation payment, stayed within a reasonable lump-sum amount.

But the reason this approach was not adopted is as follows:

Presumably the individual who leaves Service of his own volition is doing so for reasons which to him are better than remaining in Service. It may be to take

a better job. It may be to do something else that he thinks would be more satisfying to him.

Service needs, on the other hand, may be to retain the individual. There is also the problem that many individuals whom the Services would like to keep might be motivated by the possibility of obtaining an immediate lump-sum payment; it might conceivably encourage some to leave the Service.

Remember that under today's system there is nothing payable to that individual, so that even the feature of providing for a deferred annuity at age 60 is a completely new add-on to the retirement system and fills a void that has existed.

From the standpoint of the individual, it might be nice for him to be able to have an option of a cash sum, or of a deferred annuity. From the standpoint of the Government, the better thing is to provide the deferred annuity.

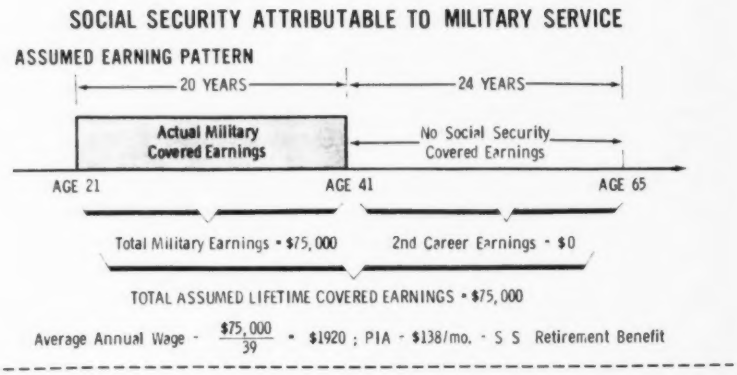
For those of you who would be interested in the mathematics of it, you would find that, unless you can visualize a separation payment of a pretty significant amount, the annuity payable at age 60 is a more worthwhile amount.

Q.: It seems there exists, perhaps, a breach of faith in that the military members, some 15 years ago when they were first brought under the Social Security benefits, were assured of receiving full benefits. And under the proposed plan they will only receive half of the payments or benefits that they receive now, with the Government easing their contribution matching the military member's share. And it would seem to me, perhaps, to be a little more equitable to have the military member pay half of what he pays now and the Government pay half, thereby saving just about as much.

A.: I think this point is well taken. Probably the majority of Service people, because they have always considered Social Security as a complete add-on to retired pay, will probably feel that this is not the right thing to do.

I would like to comment along several lines.

First, I don't think anyone can seriously argue the fact that, by paying Social Security retirement benefits on top of military retirement benefits, the Government is, in fact, making duplicate payments for precisely the same period of service. Throughout the time that the man is on active duty, the Government is paying for 50 percent of Social Security and the man is paying for 50 percent. Then the Government is also footing the retirement bill, all of this based on exactly the same period of service to the Government.


SOCIAL SECURITY ATTRIBUTABLE TO MILITARY SERVICE
ASSUMED EARNING PATTERN
20 YEARS
24 YEARS
Actual Military Covered Earnings
No Social Security Covered Earnings
AGE 21
AGE 41
AGE 65
Total Military Earnings - $75,000
2nd Career Earnings - $0
TOTAL ASSUMED LIFETIME COVERED EARNINGS - $75,000
Average Annual Wage - $\frac{\$75,000}{39}$ - $1920 ; PIA - $138/mo. - S S Retirement Benefit
TRANSITION
ASSUME MEMBER RETIRES ONE YEAR AFTER IMPLEMENTATION
OFFSET AT AGE 65 - $138 X 1/2 X 1/20 - $3.45/mo.

On January 1, 1957, when military people were first brought under the Social Security system, it was recognized that there would come a time when, after military people had achieved eligibility for Social Security retirement benefits—in other words, had been covered long enough—that there would be a duplication of benefits. Nonetheless, it was decided to go ahead and to put military personnel under the Social Security system. The driving reason was not to provide double retirement payments for careerists, which was sort of implied in the question, but rather to provide the benefits of Social Security coverage for the great majority of men and women, who were coming in the Service and leaving the Service without achieving eligibility for retirement.

I indicated earlier in response to a different question that only about 10 or 11, on the average, out of 100 new entrants into the Armed Forces, remain on until retirement. For all of the others, those years in the military would have been lost years for the purpose of Social Security, if we had not been brought under the system.

Another aspect important even to the careerist, is that, while it is, perhaps, the popular thing to just look only at the Social Security retirement benefit, there are other benefits; for example, the insurance aspects of Social Security which provide protection for a man and his family throughout his working career. It was desired to have career military people enjoy that added benefit.

We have now come to the day of reckoning in light of the cost of the military retirement system—a system that is by any standard very liberal—and in view of other adjustments in compensation that we've talked about. Also, the failure to have taken into account, or to integrate, if you will, the Social Security benefits with military retirement benefits, makes our system too open a target for those people who criticize on the basis of duplication of payments, excessive liberality, and so on.

As to breach of faith, I would accept the point that any time you change, the point can be made about, "Well, that's not the same way it was when I came in." I can't say that it isn't a change in the rules; whether or not it's a breach of faith, is a matter of opinion.

If an individual takes a position that any change is a breach of faith, well, then it's pretty hard to get around that. Carried to its logical conclusion, it could be argued that pay raises or improved benefits of any kind also represent a change in the rules from the taxpayer's point of view.

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